

CITY OF OSCEOLA, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2010

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement	
Statement of Activities and Net Assets – Cash Basis	A 4-5
Governmental Funds Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 6-7
Proprietary Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 8
Fiduciary Funds Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 9
Notes to Financial Statements	10-16
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	17-18
Notes to Required Supplementary Information – Budgetary Reporting	19
Other Supplementary Information	
	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 20-21
Schedule of Capital Projects Funds	2 22
Schedule of Indebtedness	3 23-24
Bond and Note Maturities – Governmental	4 25
Revenue Bond and Note Maturities	5 26
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	6 27
Schedule of Expenditures of Federal Awards	7 28
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	31-32
Schedule of Findings and Questioned Costs	33-35

City of Osceola, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Fred P. Diehl	Mayor	December, 2011
Bill Ogbourne	Council Member	December, 2012
Peggy Mateer	Council Member resigned March, 2011	December, 2012
Dr. James Kimball	Council Member	December, 2012
Dr. George Fotiadis	Council Member	December, 2012
Glenn Schaff	Council Member	December, 2013
William Kelly	City Manager	Indefinite
Ty Wheeler	City Clerk/ Treasurer	Indefinite
Richard Murphy	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Osceola

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Budgetary Comparison information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City has not presented the Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osceola's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2009 and 2008 and other auditors audited, in accordance with those standards, the financial statements for the years ended June 30, 2007, 2006 and 2005 and unqualified opinions were expressed on those financial statements. None of the prior audits are presented herein. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

March 4, 2011

Pollard and Company P.C.

City of Osceola, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2010

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 895,638	\$ 18,445	\$ 39,685	\$ 207,872
Public works	948,194	384,133	432,386	206,080
Culture and recreation	734,817			
Community and economic development	1,309,821	169,060		
General government	614,904	64,471		
Debt service	1,351,643			2,870
Capital Projects	2,072,884			335,773
Total governmental activities	7,927,901	636,109	472,071	752,595
Business Type Activities				
Sewer	1,102,738	961,411		
Component Unit- Water	1,716,863	1,465,010		
Component Unit- Library Foundation				
Total	\$ 2,819,601	\$ 2,426,421	\$ 472,071	\$ 752,595
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Casino Fees				
Unrestricted interest				
Miscellaneous				
Casino Lease				
Bond proceeds				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted				
Capital Projects				
Debt Service				
Other purposes				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis			Discretely Presented Component	
Net Assets			Units	
Governmental Activities	Business Type Activities	Total	Water	Public Library Foundation
\$ (629,636)		\$ (629,636)		
74,405		74,405		
(734,817)		(734,817)		
(1,140,761)		(1,140,761)		
(550,433)		(550,433)		
(1,348,773)		(1,348,773)		
(1,737,111)		(1,737,111)		
(6,067,126)		(6,067,126)		
	(141,327)	(141,327)	(251,853)	
\$ (6,067,126)	\$ (141,327)	\$ (6,208,453)	\$ (251,853)	

1,635,881		1,635,881		
1,057,921		1,057,921		
466,218		466,218		
933,319		933,319		
215,831		215,831		
855,594		855,594		
221,638		221,638	15,379	25,801
385,675		385,675		
			166,248	
3,501,333		3,501,333		
9,273,410		9,273,410	181,627	25,801
3,206,284	(141,327)	3,064,957	(70,226)	25,801
6,147,345	639,598	6,786,943	233,753	1,185,305
\$ 9,353,629	\$ 498,271	\$ 9,851,900	\$163,527	\$1,211,106

\$ 2,172,378	\$	\$ 2,172,378
	498,271	498,271
4,869,628		4,869,628
2,311,623		2,311,623
\$ 9,353,629	\$ 498,271	\$ 9,851,900

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2010

	Special Revenue			
	General	Casino Special Project	Employee Benefits	Local Option Tax LEC
Receipts				
Property Taxes	\$ 1,208,211	\$	\$ 391,405	\$
Tax Increment Financing Collections				
Casino Fees	855,594			
Other City Tax				
Licenses and Permits	82,916			
Use of Money and Property	102,425	107,083		
Intergovernmental	245,766			
Charges for Services	553,193			
Miscellaneous	605,676			
Total Receipts	3,653,781	107,083	391,405	
Disbursements				
Operating				
Public Safety	721,386		174,252	
Public Works	537,397		58,667	
Culture and Recreation	645,516		89,301	
Community and Economic Development				54,525
General Government	561,264		53,640	
Debt Service				
Capital Projects	1,288,329			
Total Disbursements	3,753,892		375,860	54,525
Excess (deficiency) of receipts over (under) disbursements	(100,111)	107,083	15,545	(54,525)
Other financing sources (uses)				
Bond Proceeds	751,333			
Operating transfers in	67,049			
Operating transfers out				
Total other financing sources (uses)	818,382			
Net change in cash balances	718,271	107,083	15,545	(54,525)
Cash balance (deficit) - beginning of year	1,593,352	3,711,537	384,571	171,308
Cash balance - end of year	\$ 2,311,623	\$ 3,818,620	\$ 400,116	\$ 116,783
Cash basis fund balances				
Unreserved				
General	\$ 2,311,623	\$	\$	\$
Capital Projects				
Special revenue funds		3,818,620	400,116	116,783
Permanent fund				
Total cash basis fund balances	\$ 2,311,623	\$ 3,818,620	\$ 400,116	\$ 116,783

See notes to financial statements

Special Revenue					
Local Option Tax Reservoir	Hotel/Motel Tax	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
\$	\$	\$	\$ 466,218	\$ 36,265	\$ 2,102,099
				1,057,921	1,057,921
					855,594
933,319	215,831				1,149,150
					82,916
		9,260	2,870		221,638
		326,513		432,386	1,004,665
					553,193
					605,676
933,319	215,831	335,773	469,088	1,526,572	7,632,852
					895,638
				352,130	948,194
					734,817
895,822				359,474	1,309,821
					614,904
			1,351,643		1,351,643
		784,555			2,072,884
895,822		784,555	1,351,643	711,604	7,927,901
37,497	215,831	(448,782)	(882,555)	814,968	(295,049)
		2,750,000			3,501,333
			882,555	107,915	1,057,519
	(215,831)			(841,688)	(1,057,519)
	(215,831)	2,750,000	882,555	(733,773)	3,501,333
37,497		2,301,218		81,195	3,206,284
(5,101)		(128,840)		420,518	6,147,345
\$ 32,396	\$	\$ 2,172,378	\$	\$ 501,713	\$ 9,353,629
\$	\$	\$	\$	\$	2,311,623
		2,172,378			2,172,378
32,396				421,638	4,789,553
				80,075	80,075
\$ 32,396	\$	\$ 2,172,378	\$	\$ 501,713	\$ 9,353,629

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Fund
As of and for the year ended June 30, 2010

	<u>Sewer</u>
Operating receipts	
Charges for service	\$ 739,631
Surcharge	<u>221,780</u>
Total operating receipts	<u>961,411</u>
Operating disbursements	
Business type activities	<u>644,686</u>
Excess of operating receipts over operating disbursements	<u>316,725</u>
Non-operating receipts (disbursements)	
Interest on Investments	5,841
Capital Projects	(111,166)
Debt service	<u>(352,727)</u>
Total non-operating receipts (disbursements)	<u>(458,052)</u>
Net change in cash balances	(141,327)
Cash balances - beginning of year	639,598
Cash balances - end of year	<u>\$ 498,271</u>
Cash basis fund balances	
Reserved for debt service	<u>\$ 498,271</u>
Total cash basis fund balances	<u>\$ 498,271</u>

See notes to financial statements.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2010

NON EXPENDABLE FUND

	<u>Fire Association</u>
Receipts	
Interest	\$ 5,788
Total receipts	<u>5,788</u>
Disbursement- Downpayment on Fire Truck	<u>(200,000)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(194,212)</u>
Cash balance - beginning of year	372,198
Cash balance - end of year	<u><u>\$ 177,986</u></u>

EXPENDABLE FUND

	<u>Library</u>
Receipts	
Interest	\$ 8,678
Total receipts	<u>8,678</u>
Disbursements	
Culture and Recreation	<u>(13,706)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(5,028)</u>
Net change in cash balances	(5,028)
Cash balance - beginning of year	369,587
Cash balance - end of year	<u><u>\$ 364,559</u></u>

See notes to financial statements

CITY OF OSCEOLA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1/ Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, economic development and general administrative services. The City also provides water, sewer and sanitation services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The financial statements present the City of Osceola (the primary government) and the following component units as discretely presented component units.

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City council and its operating budget is subject to approval of the city council.

In November 2008, the Osceola Public Library Foundation became an IRC 501(c) 3 organization. The City transferred the non-expendable fiduciary funds which had been received from various bequests to the Foundation. Five out of seven members of the Board are appointed by the City. Therefore, its relationship is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation is presented in a separate column to emphasize that it is legally separate from the City.

In September, 2007, the Osceola Volunteer Firefighters Association became an IRC 501(c) 3 organization. The bequests received by the City designated for that Association are reported as non-expendable fiduciary funds in the financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreements: Clarke County Sanitary Landfill Commission, Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board, Clarke County Jail and Law Enforcement Center and the Southwest Iowa Coalition .

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Casino Special Project is used to account for contributions and development activities for a new reservoir and regional recreation facility.

The Employee Benefits Fund is used to account for the tax levy and disbursement for the benefits.

The Local Option Sales Tax Funds are used to account for the City's sales tax receipts for the Law Enforcement Center (LEC) and the Reservoir and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

Capital Projects-The Capital Project Fund was established to account for the costs of various projects and the financing thereof.

Debt Service-The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Basis of Presentation (continued)

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Osceola maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in Community and Economic Development and Debt Service functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2010 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$192,789 pursuant to Rule 2a-7 under the Investment Company Act of 1940. In addition, the City held 1,828 shares of Principal Financial Group, Inc. which was received in the demutualization of that insurance company and is carried at no cost in the financial statements.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

3/ Bonds and Notes Payable

The annual debt service requirement to maturity for general obligation bonds and notes, and the sewer revenue bonds is as follows:

General Obligation Bonds and

Year Ending June 30,	Notes		Sewer Revenue Bonds		Primary Government Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	1,044,040	501,784	272,000	85,134	1,316,040	586,918
2012	1,074,719	464,714	282,000	74,919	1,356,719	539,633
2013	1,051,308	425,859	293,000	64,322	1,344,308	490,181
2014	1,087,093	387,585	304,000	53,299	1,391,093	440,884
2015	1,127,173	347,015	138,000	41,850	1,265,173	388,865
2016-2020	4,995,000	1,131,123	752,000	144,720	5,747,000	1,275,843
2021-2026	2,095,000	219,561	505,000	30,540	2,600,000	250,101
Total	\$ 12,474,333	\$ 3,477,641	\$ 2,546,000	\$ 494,784	\$ 15,020,333	\$ 3,972,425

Component Unit- Annual debt service requirements to maturity for the water revenue bonds and notes are as follows:

Water Revenue Bonds and Notes

Year Ending June 30,	Principal		Interest	
2011	216,000		90,090	
2012	222,000		83,070	
2013	197,000		75,870	
2014	203,000		69,960	
2015	210,000		63,870	
2016-2020	1,146,000		221,130	
2021-2026	773,000		46,830	
Total	\$ 2,967,000		\$ 650,820	

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$ 4,550,000 in sewer revenue bonds issued in May 1994 and October 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$3,040,784. For the current year, principal and interest paid was \$352,727 and total customer net receipts were \$316,725.

The Component Unit has pledged future water receipts, net of specified operating disbursements, to repay \$4,216,000 in water revenue bonds and notes issued May 2002 and February 2007, respectively. Proceeds were used to provide financing for drinking water facilities. The total principal and interest remaining to be paid on the obligations is \$3,617,820. For the current year, principal and interest paid was \$315,740 and total customer net receipts were \$316,184.

The resolutions providing for the issuance of the note and bond include the following provisions:

- The notes or bonds will only be redeemed from the future earnings of the enterprise activity and the holders hold a lien on the future earnings of the funds.

Bonds and Notes Payable (continued)

- b. Sufficient monthly transfers shall be made to a separate water bond sinking account for the purpose of making the next principal and interest payments.
- c. The City shall establish, impose, adjust and provide for the sewer and water rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City did not increase water or sewer rates as required by the above resolutions . In August, 2010, sewer rates were increased.

4/ Tax Increment Financing

In 2003, the City consolidated seven urban renewal districts into one and established a residential urban renewal area. Subsequently, the West 35 Industrial and the CT 8 Western were established in 2007 and 2008, respectively. The City has made agreements with the county, school and other taxing jurisdictions, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts. The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts.

5/ Local Option Sales Tax

In 2001, the City, Clarke County and the cities of Murray and Woodburn entered into a 28E agreement to build the Clarke County Jail and Law Enforcement Center. The participants committed the 1% local option sales tax passed by the 2000 referendum towards the construction of the facility. During the year ended June 30, 2009, the final payment on the Center was made. The balance in the Local Option Tax LEC fund is committed to be paid for expenditures which benefit County constituents.

In 2007, a referendum directed that the taxes earned after January 1, 2008, would be used for the acquisition of land, planning, design, construction, equipping and maintenance, while any project debt is outstanding, for the Clarke County Reservoir Project.

6/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$121,640, \$107,464, and \$101,456, respectively, equal to the required contributions for each year.

7/ Other Postemployment Benefits (OPEB)

The City participates in a single-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, retirees and their spouses. There are 36 active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with United Healthcare.

Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$368 for single coverage, \$735 for employee and spouse, \$699 for employee and dependent children and \$1,392 for family coverage. The City pays the full cost of the single coverage and 85% of the difference between single coverage and any other coverage the employee elects. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2010, the City contributed \$269,522 and plan members eligible for benefits contributed \$24,641 to the plan.

8/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2010. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, was \$122,000.

9/ Landfill Closure and Postclosure Care

The City entered into an agreement with Clarke County and the cities of Murray and Woodburn, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Clarke County Sanitary Landfill. State and federal laws and regulations require the Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The site closed January 7, 2011 and the City is now using another landfill site on a contract basis. The Clarke County Landfill has estimated the total liability for closure and post closure costs to be \$377,670. This amount is based on cost estimates and other information as of April 1, 2010. Actual costs may be higher due to inflation, technology changes and changes in regulations. As specified in the 28E agreement, the City is responsible for 52.19 % of the unfunded closure and post closure costs.

10/ Lease

The City and the Municipal Waterworks have entered into a renewable lease agreement with Herbst Gaming Inc. for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. As part of the agreement Herbst Gaming paid an initial payment of \$3,200,000 plus will pay 1% of the annual adjusted gross receipts of the casino, commencing in 2012, to the Special Revenue - Casino Special Project Fund to be used for the Clarke County Reservoir Project.

The Municipal Waterworks will receive \$150,000 per year plus a 1% increase per year until lease termination offset by certain credits for certain improvements. During the year, the Waterworks received \$166,248.

The City receives 1.25% of the casino's adjusted gambling receipts on a monthly basis. During the year ended June 30, 2010, the City received \$855,594.

11/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Emergency Levy	General	\$67,049
Motel/Hotel Tax	Road Use	107,915
Motel/Hotel Tax	Debt Service	107,916
West 35 Industrial TIF	Debt Service	299,843
Community Builders TIF	Debt Service	97,039
Consolidated TIF	Debt Service	376,839
Residential TIF	Debt Service	918

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

12/ Risk Management

a) The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. IMWCA is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Workers' Compensation Coverage Agreement with IMWCA which extends through June 30, 2010 and has authorized IMWCA to issue general obligation bonds to provide funds to pay claims. During the year ended June 30, 2010, the City paid IMWCA insurance premiums of \$ 66,118.

13/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

14/ Deficit Fund Balances

At June 30, 2010 the Road Use Tax Fund had a deficit balances of \$52,081. This deficit will be reduced by future receipts. The deficits in the BSNF Building and Depot Capital Project Funds of \$27,826 and \$106,422, respectively, will be reduced by transfers from other funds as the projects are completed.

15/ Commitments

At June 30, 2010, the City has entered into engineering and construction contracts for street improvements and other projects totaling \$2,686,489 which will be paid as work progresses from the proceeds of the bond issued during the year and the General Fund.

City of Osceola, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 2,102,099	\$
Tax increment financing collections	1,057,921	
Other city tax	1,149,150	
Licenses and permits	82,916	
Use of money and property	221,638	
Intergovernmental	1,004,665	
Charges for Service	1,408,787	961,411
Special assessments		
Miscellaneous	605,676	
Other financing sources	3,501,333	
Total Receipts	<u>11,134,185</u>	<u>961,411</u>
Disbursements		
Public safety	895,638	
Public works	948,194	
Culture and recreation	734,817	
Community and economic development	1,309,821	
General government	614,904	
Debt service	1,351,643	
Capital projects	2,072,884	
Business type activities		1,102,738
Total Disbursements	<u>7,927,901</u>	<u>1,102,738</u>
Excess (deficiency) of receipts over (under) disbursements	<u>3,206,284</u>	<u>(141,327)</u>
Balance - beginning of year	6,147,345	639,598
Balance - end of year	<u>\$ 9,353,629</u>	<u>\$ 639,598</u>

See accompanying independent auditors' report.

Component Unit Included in Budget	Budgeted Amounts			
	Net	Original	Final	Final to Net Variance
	\$ 2,102,099	\$ 2,054,241	\$ 2,054,241	\$ 47,858
	1,057,921	1,114,046	1,114,046	(56,125)
	1,149,150	1,212,653	1,212,653	(63,503)
	82,916	38,325	38,325	44,591
181,627	403,265	442,600	442,600	(39,335)
	1,004,665	802,717	802,717	201,948
1,465,010	3,835,208	4,555,957	4,555,957	(720,749)
		215,000	215,000	(215,000)
	605,676	697,000	1,010,639	(404,963)
	3,501,333	2,750,000	2,750,000	751,333
1,646,637	13,742,233	13,882,539	14,196,178	(453,945)
	895,638	1,278,818	1,278,818	383,180
	948,194	1,359,602	1,359,602	411,408
	734,817	719,646	744,123	9,306
	1,309,821	1,179,046	1,190,860	(118,961)
	614,904	1,463,174	1,617,412	1,002,508
	1,351,643	250,000	250,000	(1,101,643)
	2,072,884	2,750,000	2,750,000	677,116
1,716,863	2,819,601	3,954,848	3,963,348	1,143,747
1,716,863	10,747,502	12,955,134	13,154,163	2,406,661
(70,226)	2,994,731	927,405	1,042,015	1,952,716
233,753	7,020,696	10,149,367	10,149,367	(3,128,671)
\$ 233,753	\$ 10,226,980	\$ 11,076,772	\$ 11,191,382	\$ 964,402

City of Osceola, Iowa
Notes to Required Supplementary Information -- Budgetary Reporting
June 30, 2010

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$199,029. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Community and Economic Development and Debt Service functions.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2010

Schedule 1

	Special Revenue			
	Urban Renewal Consolidated TIF	Residential TIF	West 35 Industrial TIF	CT 8 Western TIF
Receipts				
Tax increment financing collections	\$ 405,734	\$ 2,147	\$ 520,512	\$ 129,528
Property tax				
Intergovernmental				
Total Receipts	405,734	2,147	520,512	129,528
Disbursements				
Public Works				
Community and economic development	68,325	17,340	273,809	
Total Disbursements	68,325	17,340	273,809	
Excess (deficiency) of receipts over (under) disbursements	337,409	(15,193)	246,703	129,528
Operating Transfers In				
Operating Transfers Out	(376,839)	(97,957)	(299,843)	
Total other financing (uses)	(376,839)	(97,957)	(299,843)	
Net change in cash balances	(39,430)	(113,150)	(53,140)	129,528
Cash balance (Deficit) - beginning of year	258,547	113,150	53,140	125,074
Cash balance (Deficit) - end of year	\$ 219,117	\$	\$	\$ 254,602
Cash basis fund balances (Deficit)				
Unreserved				
Special Revenue	\$ 219,117			\$ 254,602
Permanent fund				
Total cash basis fund balances	\$ 219,117			\$ 254,602

See accompanying independent auditors' report.

Special Revenue		Cemetery Perpetual Care	Total
Emergency Levy	Road Use Tax		
\$	\$	\$	\$ 1,057,921
36,265			36,265
	432,386		432,386
36,265	432,386		1,526,572
	352,130		352,130
			359,474
	352,130		711,604
36,265	80,256		814,968
	107,915		107,915
(67,049)			(841,688)
(67,049)	107,915		(733,773)
(30,784)	188,171		81,195
30,784	(240,252)	80,075	420,518
\$	\$ (52,081)	\$ 80,075	\$ 501,713
	\$ (52,081)	\$ 80,075	\$ 421,638
		80,075	80,075
\$	(52,081)	\$ 80,075	\$ 501,713

City of Osceola, Iowa
Schedule of Capital Projects Funds
As of and for the year ended June 30, 2010

Schedule 2

	2009 Paving	BSNF Bldg	BSNF Depot	Total
Receipts				
Use of Money and Property	\$ 9,260	\$	\$ 9,260	
Intergovernmental			326,513	326,513
Total Receipts	9,260		326,513	335,773
Disbursements				
Capital Projects	430,606		353,949	784,555
Total Disbursements	430,606		353,949	784,555
Excess(deficiency) of receipts over (under) disbursements	(421,346)		(27,436)	(448,782)
Other financing				
Bond Proceeds	2,750,000			2,750,000
Total other financing	2,750,000			2,750,000
Net change in cash balances	2,328,654		(27,436)	2,301,218
Cash balance (Deficit)- beginning of year	(22,028)	(27,826)	(78,986)	(128,840)
Cash balance (Deficit) - end of year	\$ 2,306,626	\$ (27,826)	\$ (106,422)	\$ 2,172,378
Cash basis fund balances (Deficit)				
Unreserved				
Capital projects	\$ 2,306,626	\$ (27,826)	\$ (106,422)	\$2,172,378

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Indebtedness
For the year ended June 30, 2010

			Amount Originally Issued
	Date of Issue	Interest Rates	
<u>Obligation</u>			
<u>Primary Government</u>			
General Obligation Bond and Notes			
General Corporate Purpose	August 1, 2009	1.25-4.40%	\$2,750,000
General Corporate Purpose and Refunding	September 1, 2005	3.50 - 4.00%	5,800,000
General Corporate Purpose	July 24, 2007	4.72%	320,000
General Corporate Purpose	August 1, 2007	4.00 - 5.00%	4,500,000
Capital Lease- Road Grader	September 22, 2009	4.50%	79,800
General Obligation Note - Fire Truck	April 2, 2010	3.36%	751,533
General Corporate Purpose	September 12, 2003	2.50 - 4.30%	500,000
Totals			
Revenue Bonds			
Sewer Revenue Bonds	May 2, 1994	3.00%	1,880,000
Sewer Revenue Bonds	October 27, 2003	3.00%	2,670,000
Totals			
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds and Notes			
Water Revenue Bonds	May 14, 2002	3.00%	4,066,000
Water Revenue Notes	February 13, 2007	4.80%	150,000

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$	\$ 2,750,000	\$ 150,000	\$ 2,600,000	\$ 78,294
4,715,000		355,000	4,360,000	177,160
192,000		64,000	128,000	9,188
4,500,000		240,000	4,260,000	207,646
	79,800		79,800	
	751,533		751,533	
350,000		55,000	295,000	14,156
<u>\$ 9,757,000</u>	<u>\$ 3,581,333</u>	<u>\$ 864,000</u>	<u>\$ 12,474,333</u>	<u>\$ 486,444</u>
\$ 783,000		\$ 144,000	\$ 639,000	\$ 23,490
2,026,000		119,000	1,907,000	60,780
<u>\$ 2,809,000</u>		<u>\$ 263,000</u>	<u>\$ 2,546,000</u>	<u>\$ 84,270</u>
<u>\$ 12,566,000</u>	<u>\$ 3,581,333</u>	<u>\$ 1,127,000</u>	<u>\$ 15,020,333</u>	<u>\$ 570,714</u>
\$ 3,088,000		\$ 181,000	\$ 2,907,000	\$ 92,640
90,000		30,000	60,000	4,380
<u>\$ 3,178,000</u>	<u>\$</u>	<u>\$ 211,000</u>	<u>\$ 2,967,000</u>	<u>\$ 97,020</u>

City of Osceola, Iowa
Bond and Note Maturities- Governmental
For the year ended June 30, 2010

Schedule 4

Year Ending June 30,	General Corporate Purpose and Refunding		General Corporate Purpose		General Corporate Purpose		General Corporate Purpose	
	Issued August 1, 1998		Issued October 1, 2007		Issued September 12, 2003		Issued July 24, 2007	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2011	3.63	370,000	4.10	250,000	3.75	55,000	4.72	64,000
2012	3.63	380,000	4.20	260,000	4.00	55,000	4.72	64,000
2013	3.63	395,000	4.30	270,000	4.10	60,000		
2014	3.63	410,000	4.40	280,000	4.20	60,000		
2015	3.75	425,000	4.50	295,000	4.30	65,000		
2016	3.75	435,000	4.60	310,000				
2017	3.80	460,000	4.65	320,000				
2018	3.85	475,000	4.70	335,000				
2019	3.90	495,000	4.75	355,000				
2020	4.00	515,000	4.80	370,000				
2021			4.90	385,000				
2022			4.95	405,000				
2023			5.00	425,000				
2024								
Totals		<u>\$ 4,360,000</u>		<u>\$ 4,260,000</u>		<u>\$ 295,000</u>		<u>\$ 128,000</u>

General Corporate Purpose		Road Grader		Fire Truck		
Issued August 1, 2009		Issued April 2, 2010		Issued April 2, 2010		
Interest Rates(%)	Amount	Interest Rates(%)	Amount	Interest Rates (%)	Amount	Total
1.75	150,000	4.50	14,559	3.36	140,481	1,044,040
2.15	155,000	4.50	15,228	3.36	145,491	1,074,719
2.55	160,000	4.50	15,928	3.36	150,380	1,051,308
2.90	165,000	4.50	16,660	3.36	155,433	1,087,093
3.15	165,000	4.50	17,425	3.36	159,748	1,127,173
3.40	170,000					915,000
3.60	180,000					960,000
3.75	185,000					995,000
3.90	190,000					1,040,000
4.00	200,000					1,085,000
4.10	205,000					590,000
4.20	215,000					620,000
4.30	225,000					650,000
4.40	235,000					235,000
\$	2,600,000	\$	79,800	\$	751,533	\$12,474,333

City of Osceola
Revenue Bond and Note Maturities
For the year ended June 30, 2010

Schedule 5

Sewer Revenue Bonds

Issued May 2, 1994 Issued October 27, 2003

Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total Sewer Revenue Bonds
2011	3.00	150,000	3.00	122,000	272,000
2012	3.00	156,000	3.00	126,000	282,000
2013	3.00	163,000	3.00	130,000	293,000
2014	3.00	170,000	3.00	134,000	304,000
2015			3.00	138,000	138,000
2016			3.00	142,000	142,000
2017			3.00	146,000	146,000
2018			3.00	150,000	150,000
2019			3.00	155,000	155,000
2020			3.00	159,000	159,000
2021			3.00	164,000	164,000
2022			3.00	169,000	169,000
2023			3.00	172,000	172,000
Totals		<u>\$ 639,000</u>		<u>\$ 1,907,000</u>	<u>\$ 2,546,000</u>

Water Revenue Bonds and Notes - Component Unit

Water Revenue Bonds Water Revenue Notes

Issued May 2, 1994 February
13, 2007

Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total
2011	3.00	186,000	4.80	30,000	216,000
2012	3.00	192,000	4.80	30,000	222,000
2013	3.00	197,000			197,000
2014	3.00	203,000			203,000
2015	3.00	210,000			210,000
2016	3.00	216,000			216,000
2017	3.00	222,000			222,000
2018	3.00	229,000			229,000
2019	3.00	236,000			236,000
2020	3.00	243,000			243,000
2021	3.00	250,000			250,000
2022	3.00	258,000			258,000
2023	3.00	265,000			265,000
Totals		<u>\$ 2,907,000</u>		<u>\$ 60,000</u>	<u>\$ 2,967,000</u>

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Last Six Years

Schedule 6

	2010	2009	2008	2007	2006	2005
Receipts						
Property taxes	\$ 2,102,099	\$ 1,895,269	\$ 1,712,784	\$ 1,682,743	\$ 1,592,606	\$ 1,638,777
Tax increment financing collections	1,057,921	1,404,735	789,314	678,536	603,981	513,847
Other city tax	1,149,150	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	82,916	12,608	13,051	11,677	15,773	19,346
Use of money and property	221,638	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	1,004,665	905,952	873,023	825,723	851,667	1,003,840
Charges for service	1,408,787	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	605,676	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 7,632,852	\$ 7,049,559	\$ 6,117,353	\$ 6,205,069	\$ 6,165,870	\$ 8,614,498
Disbursements						
Operating						
Public safety	\$ 895,638	\$ 806,140	\$ 920,333	\$ 778,792	\$ 748,843	\$ 776,541
Public works	948,194	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	734,817	674,463	761,378	829,558	726,759	671,715
Community and economic development	1,309,821	1,712,442	609,503	310,974	165,339	322,661
General government	614,904	615,453	574,462	919,082	745,378	753,168
Debt service	1,351,643	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 7,927,901	\$ 7,247,612	\$ 9,411,835	\$ 6,725,670	\$ 10,154,259	\$ 5,828,592

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Schedule 7

Grantor/Program		CFDA Number	Program Expenditures
Pass- Through Program From:			
U.S. Department of Transportation			
Iowa Department of Transportation			
Highway Planning and Construction	ARRA	20.205	\$ 353,949
 Federal Aviation Administration			
Airport Improvement Program	ARRA	20.106	150,898
		20.106	99,652
			<u>\$ 604,499</u>

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Osceola's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs that we considered to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing

Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osceola's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City of Osceola may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Pollard and Company P.C.

March 4, 2011

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council

Compliance

We have audited the compliance of the City of Osceola with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Osceola complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described on the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over compliance, described in Part III of the accompanying Schedule of Findings and Questioned Costs that we considered to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Osceola's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the officials, employees and citizens of the City of Osceola and other parties, including and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties

March 4, 2011

Pollard and Company P.C.

CITY OF OSCEOLA, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

PART I- SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with the requirements applicable to the major program.
- f. The audit did not disclose any findings which are required to be reported in accordance with Circular A-133, Section .510(a).
- g. The major program was CFDA Number 20.205 Highway Planning and Construction
- h. The dollar threshold used to distinguish between Type A and B programs was \$ 300,000.
- i. The City did not qualify as a low-risk auditee.

Part II Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

II-A-10 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing
journalizing and posting.
- (3) Payroll preparation and distribution.
- (4) Bank account reconciliations

Also, during the year, the bank accounts were not reconciled on a timely basis. This resulted in numerous and significant unposted entries to the general ledger. For the year ended June 30, 2010 the process was finally completed in December 2010.

Recommendation

In any environment, and especially in a cash receipts and disbursements environment, the reconciliation of the information maintained by the banks is a very important internal control function. This is the fifth year that this function has not been performed on a timely basis. We realize that with a limited number of office employees, the function may be set aside for other daily duties. However, the City should review its procedures to provide sufficient time and personnel to perform this function on a timely basis, accurately and post any entries to the general ledger to complete the books and records. In addition, the above segregation of duties issue should be addressed to obtain the maximum internal control possible under the circumstances.

Response

With new personnel hired in June 2010, we are attempting to involve management and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate

duties to the extent possible and will complete the bank reconciliations in a timely manner.

Conclusion

Response accepted

INSTANCES OF NON- COMPLIANCE:

No matters were noted.

PART III Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE :

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

- III-A-10 Segregation of Duties Over Federal Receipts and Disbursements- The City did not segregate duties including those related to federal programs. Even though the City hired an outside project administrator, the actual receipts and disbursements were processed by the City. See item II-A-10.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-10 Certified Budget
Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the Community and Economic Development and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation
The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response
The budget will be amended in the future, as applicable.
- Conclusion
Response accepted.
- IV-B-10 Questionable Disbursements
We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-10 Travel Expense
We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.
- IV-D-10 Business Transactions
No business transactions between the City and City officials or employees were noted.

IV-E-10 Bond Coverage
Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Council Minutes
Although minutes of the Council meetings were published some were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Also, they did not always contain the disbursements by fund and did not contain a summary of receipts.

Recommendation
The City should comply with Chapter 372 of the Code of Iowa and include the above in the publications.

Response
We will comply with the code requirements.

Conclusion
Response accepted.

IV-G-10 Deposits and Investments
We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

IV-H-10 Revenue Bonds and Notes
As noted in Note 3, the City did not maintain sufficient rates to service the revenue bonds and notes as required by the resolutions.

Recommendation
The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds and notes.

Response
The water and sewer receipts during the year were not sufficient due to a decrease in the usage volume by certain major commercial operations. Water rates were increased effective January 1, 2009 and sewer rates in August, 2010.

Conclusion
Response accepted.

IV-I-10 Financial Condition
The Road Use Tax Fund and the BSNF Building and Depot Capital Project Funds had deficit balances at June 30, 2010 of \$52,081, \$27,826 and \$106,422, respectively.

Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response
Note 14 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion
Response accepted.